California Fair Political Practices Commission

MEMORANDUM

To: Chairman Randolph, Commissioners Downey, Karlan, Knox and Swanson

From: Jill Stecher, Commission Counsel

John W. Wallace, Assistant General Counsel

Luisa Menchaca, General Counsel

Re: Adoption of Regulation 18329.5—Commission Advice Procedure-

Government Code Sections 87300-87306

Date: April 14, 2003

I. INTRODUCTION

The Political Reform Act (the "Act")¹ requires that certain public officials disclose personal financial holdings that may be affected by their official duties. The Act requires that every agency adopt a conflict of interest code and requires public officials who participate in the making of governmental decisions to be designated in these codes and file individual statements of economic interests (SEIs) disclosing all their economic interests that may be affected by their decisionmaking. (Section 87300.) Section 87301 sets forth the policy that codes be formulated at the most decentralized level possible.

In 1980, the Commission adopted a "model" conflict of interest code that contains all of the provisions specified in section 87302. (Regulation 18730.) Most state and local agencies simply incorporate regulation 18730 as the body of their conflict of interest code and attach a list of designated employees and their assigned disclosure categories.

Proposed regulation 18329.5 deals specifically with Commission advice procedures for sections 87300 to 87306, pertaining to conflict of interest codes. The purpose of the proposed regulation is to balance the Commission's role of providing advice and assistance with the policy of the Act that conflict of interest codes be formulated at the most decentralized level possible and that the role of the code reviewing body is to revise and adopt conflict of interest codes.

Government Code sections 81000-91014. Commission regulations appear at Title 2, sections 18109-18997 of the California Code of Regulations. All statutory references are to the Government Code unless otherwise indicated.

The purpose of this proposed regulation is to codify two of the Commission's 2002 goals and objectives. From these goals, staff identified several projects and prepared proposals for Commission review in connection with these projects. (Projects A.2 and A.7.)

The goal of Project A.2 is to clarify when an individual who works for a local agency, an agency and/or a code reviewing body may seek Commission advice or assistance regarding conflict of interest codes and obligations under the provisions of Government Code section 87302. Proposed regulation 18329.5 is considered an addendum to regulation 18329, which gives the guidelines for formal written advice and informal assistance.

The goal of Project A.7 is to clarify what procedures should be followed when an individual, an agency or a code reviewing body seeks advice or a determination regarding whether a public official is one who manages public investments. A public official who manages public investments may either be subject to an agency code or file as a statutory filer, if he or she meets the requirements of regulation 18701(b). (Section 87200). This advice procedure is also set forth in proposed regulation 18329.5.

II. BACKGROUND

Project A.2 initially developed from an examination of the Commission's role with respect to local government agencies. It has been the Commission staff's experience that employees of local agencies who disagree with their agency's determination ask the Commission to render advice concerning a determination that is made by the agency or code reviewing body. For example, the Technical Assistance Division receives inquires from individuals about whether a new agency or subdivision of an agency must create a conflict of interest code. This is a determination that is made by the code reviewing body. (Memo to Commissioners re: Project Proposals—Conflict of Interest Codes and Statements of Economic Interests, March 29, 2002.)

When presented with substantive inquiries, the Technical Assistance Division advises individuals that their questions must be addressed to their agency. Sometimes individuals then request written advice from the FPPC, questioning: 1) whether they have filing obligations because they believe that they are not pubic officials, 2) whether the disclosure categories of their agency's conflict of interest code are too broad; or 3) whether their agency has not adopted or amended a code to include them.

The telephone inquiries the Technical Assistance Division receives from individuals occur primarily when the Statement of Economic Interests (Form 700) is due. The Technical Assistance Division assists with the technical filing questions.

The above-referenced memo suggested that it may be appropriate to amend regulation 18329, which describes what constitutes a request for formal advice and

informal assistance, to establish clearer guidelines on when it is appropriate for Commission staff to render advice. Instead of amending regulation 18329, regulation 18329.5 was proposed.

Proposed Regulation 18329.5 was introduced for pre-notice discussion at the December 13, 2002, Commission meeting. That proposed regulation delineated specific procedures for the Commission to provide either formal advice or informal assistance to an individual, agency or code reviewing body regarding an individual's position and/or disclosure category in an agency's conflict of interest code.

The Commission focused its discussion on the ability of an individual to request and receive formal advice regarding his/her position or disclosure category in the agency's conflict of interest code. The Commission was concerned that an individual, who either contested his/her inclusion or position in a conflict of interest code or disagreed with an overbroad disclosure category, has some relief outside of judicial review (as provided by section 87308).

Staff was directed to hold another Interested Persons' meeting on the proposed regulation and to research the Commission's authority for providing formal advice that would be binding on the individual, agency and code reviewing body.

Interested Persons' Meeting: On February 6, 2003, staff conducted an additional interested persons' meeting. The following questions were discussed:

1) To what extent should the Commission become involved in a dispute between an individual and his or her local government agency and/or pertinent code reviewing body regarding the individual's position or disclosure category required in the agency's conflict of interest code?

Attendees² commented that the individual or FPPC should inform the agency of the request for FPPC intervention because the agency could provide more information to the FPPC regarding an individual's duties.

2) Should an individual first be required to attempt to resolve a contested issue regarding his/her designation or disclosure category with his/her agency and/or code reviewing body <u>before</u> the Commission renders advice?

Mr. John McKibben, the Deputy Executive Officer for the Board of Supervisors, County of Los Angeles, noted that the individual should be required to work first with the agency and then the code reviewing body, before the FPPC advises the individual. The Commission should only be involved <u>after</u> the code reviewing body has performed its duties. If there is still an issue, the individual and agency should then make a joint

² The only attendees included a representative from the Los Angeles County Board of Supervisors, deputy county counsels, a district counsel and a political attorney. The attendees included agency representatives rather than individual filers.

request to the FPPC. He believed this was more consistent with the conflict of interest code provisions of the Act.

3) Should the Commission issue formal advice to an individual requestor, which then becomes binding on the individual, agency and code reviewing body?

The attendees inquired how the FPPC could advise an individual when the FPPC does not know the factual details of a situation. They also questioned the Commission's authority to issue formal advice that binds the code reviewing body under the existing statutory scheme.

The attendees also questioned the need for this regulation since they do not experience many filing problems and are satisfied that the statutory procedures generally work well.

III. OVERVIEW OF THE LAW

Section 83111 states that "the Commission has primary responsibility for the impartial, effective administration and implementation" of the Act. Section 81003 provides for liberal construction to accomplish this purpose. Section 83114(b) provides that "any person may request the Commission to provide written advice with respect to the person's *duties* under this title" (emphasis added). In providing written advice, Commission staff applies the facts of a particular situation to the pertinent statutes, regulations and Commission opinions, taking into account previous advice letters.

Regulation 18329 implements section 83114.³ Under regulation 18329, the "Commission will assist persons in complying with the Political Reform Act, by issuing formal written advice or informal assistance." Formal written advice provided pursuant to Section 83114(b) limits the immunity provided for in the statute to the requestor and to the specific facts contained in the formal written advice. (Regulation 18329 (b)(7).) Informal assistance does not provide the requestor with any immunity under section 83114 (b). (Regulation 18329 (c)(3).)

Regulation 18329 allows the Commission to decline a request for formal written advice when the "material facts provided in the request may be inaccurate, incomplete or in dispute" or when it would be "inappropriate." (Regulation 18329 (b)(8)((C) and (F).)

The issue is how, when or if this function applies to an individual's questions regarding conflict of interest codes. Sections 87300 to 87312 provide specific procedures applicable to the development of conflict of interest codes. As noted above, the express

³ Section 83114 (b): "It [Commission written advice] shall be a complete defense in any enforcement proceeding initiated by the Commission, and evidence of good faith conduct in any other civil or criminal proceeding, if the requester, at least 21 working days prior to the alleged violation, requested written advice from the Commission in good faith, disclosed truthfully all the material facts, and committed the acts complained of either in reliance on the advice or because of the failure of the Commission to provide advice within 21 days of the request or such later extended time."

policy of the Act is that conflict of interest codes "should be formulated at the most decentralized level possible." (Section 87301.) The apparent purpose of this scheme is first that the agency, which determines the duties of its employees, designates the positions and disclosure categories in its conflict of interest code. Then the code reviewing body reviews and ultimately adopts a conflict of interest code. Unless it is the code reviewing body, the Commission has only been involved in this process *if* the agency and the code reviewing body fail to act pursuant to the statute (section 87304). Under section 87304, the Commission is required to consult with the agency before ordering the adoption of a conflict of interest code for the agency.

Further, section 87307 explicitly sets forth the right of an individual to petition his/her agency to amend its conflict of interest code. If the petition is denied, the petitioner may appeal to the code reviewing body. The code reviewing body *shall* either dismiss the appeal or issue an appropriate order to the agency. The statutory scheme continues with section 87308 that permits an individual, the agency or the Commission to seek judicial review of an action of a code reviewing body. Regulation 18737 allows the code reviewing body to suspend or modify an individual's disclosure obligations while an appeal is pending.

IV. STATUTORY CONSTRUCTION

Consistent with the Commission's directives at the December 2002 meeting, the discussion below examines whether the Commission staff may advise individuals only when the advice may impact the adoption or amendment of a conflict of interest code.

A. When an Agency's Authority to Act is Limited

Under the rules of statutory construction, a specific provision relating to a particular subject will govern a general provision even though the general provision standing alone would be broad enough to include the subject to which the specific provision relates. (*Carlton Santee Corp. v. Padre Dam Mun. Water Dist.* (1981) 120 Cal. App.3d 14, 29.) Under this principle of statutory construction, it appears that Commission staff rendering formal advice regarding an individual's position or disclosure category may be inconsistent with the explicit statutory scheme in sections 87300 through 87312.⁴

A review of case law dealing with the scope of authority of agencies generally and the validity of regulations promulgated by administrative agencies supports the

⁴ Generally, administrative agencies have only those powers that have been conferred on them, expressly or by implication, by constitution or statute. An administrative agency, therefore, must act within the powers conferred upon it by law and may not validly act in excess of those powers. Accordingly, it is well settled that when an administrative agency acts in excess of, or in violation of, the powers conferred upon it, its action thus taken is void (*City and County of San Francisco v. Padilla* (1972) 23 Cal.App.3d 388, 400).

premise that administrative agencies have only those powers that have been conferred on them, expressly or by implication, by constitution or statute.⁵

The issue at hand is that nowhere in the statutory scheme applicable to conflict of interest codes, discussed above, does it state that the individual may seek formal written advice from the Commission regarding his/her position or disclosure category in the conflict of interest code. Section 87312 authorizes the Commission to give technical assistance upon request to an *agency* in the preparation of its conflict of interest code. However, section 87312 has never been interpreted to apply to advice to individuals nor to provide for formal written advice pursuant to section 83114(b).

Of course, as to state agencies where the Commission is the code reviewing body, there is the ability to be involved in the conflict of interest code process because of the express statutory role of the code reviewing body, pursuant to section 87303. The authority of the Commission as code reviewing body has never really been questioned by the Commission or the public and therefore, we limit this discussion to circumstances where the Commission is not the code reviewing body.

B. When an Agency has Authority to Act

Although the statutory scheme for the amendment and adoption of conflict of interest codes and the petition/appeal process, as discussed above, sets forth a definite hierarchy, it grants the ultimate power to the Commission for determining the appropriateness of any specific designation or disclosure category. Within the scheme of section 87304, if the code reviewing body does not issue an appropriate order, the Commission ultimately "... may issue any appropriate order directed to the agency or take any other appropriate action including the adoption of a conflict of interest code for the agency."

As previously stated, the Commission has the primary responsibility to administer and implement the Act (section 83111). The Commission has the general authority to adopt, amend and rescind rules and regulations to carry out the purposes and provisions of the Act (section 83112). The intent of the statutory scheme set forth in sections 87300 to 87312 is to ensure that agencies promulgate conflict of interest codes that require disclosure by designated employees, to ensure that all agencies have a current and amended conflict of interest code and to provide the code reviewing body and the Commission with the authority to insure compliance. The overall intent is to carry out the purposes of the Act to provide disclosure of interests by persons whose decisions may materially affect those interests, thereby avoiding any conflicts of interest.

No administrative agency regulation is valid or effective unless it is consistent with, and not in conflict with, the authorizing statute. An administrative agency may not exercise its rulemaking power so as to alter, extend, limit, or enlarge the provisions of the statute that is being administered (*First Industrial Loan Co. v. Daugherty* (1945) 26 Cal.2d 545, 550). Thus, an administrative agency may not act contrary to the statute that is the source of its power or exceed the scope of its authority (*California Emp. Com. v. Kovacevich* (1946) 27 Cal.2d 546, 553).

In addition, in interpreting the Act, the Commission looks to the plain meaning of the statute and its legislative history, applying reason and common sense to interpret the statute consistent with its purposes. (See, e.g., *Halbert's Lumber, Inc. v. Lucky Stores, Inc.*, 6 Cal.App.4th 1233, 1238-1239 (1992).) The Commission's authority to implement the purposes of the Act, and not just its literal meaning, through regulations has been upheld in *Californians for Political Reform v. Fair Political Practices Commission*, 61 Cal.App.4th 472 (1998), *Watson v. Fair Political Practices Commission*, 217 Cal.App.3d 1059 (1990), and *Consumers Union v. California Milk Producers Advisory Bd.*, 82 Cal.App.3d 433 (1978).

In these cases, the courts have given deference to the Commission's administrative interpretation of the Act. In *Californians for Political Reform, supra*, the court stated that "because of the agency's expertise, its view of a statute or regulation it enforces is entitled to great weight unless clearly erroneous or unauthorized." (*Id.* at 484.)

Section 83114(b) states that "any person may request the Commission to provide written advice with respect to the person's duties under this title," and is implemented by regulation 18329(b), regarding formal written advice. The advice statute speaks in general terms of advising an individual as to his/her duties under the Act as a whole, without limitation. Since the Act is to be construed liberally to carry out its purpose (section 81003), providing formal written advice carries out the purpose of the Act and promotes its administration and enforcement.

Therefore, it can be asserted that the Commission's ultimate authority to advise an individual regarding one's duties under the Act and the specific authority that ultimately allows the Commission to adopt a conflict of interest code (section 87304) enables the Commission to advise an individual regarding his or her filing obligations and gives the Commission persuasive authority (if not actual) to bind the code reviewing body.

Regulation 18730 appears to reflect this interpretation. Regulation 18730 contains the terms of a standard or "model" conflict of interest code as specified in section 87302, specifically provides that "any designated employee who is unsure of his or her duties under the code may request assistance from the Commission pursuant to section 83114...." (Regulation 18730 (b)(11).) Most state and local agencies simply incorporate by reference this regulation as the body of their conflict of interest code and attach a list of designated employees and their assigned disclosure categories.

The rulemaking history for regulation 18730 provides that subdivision (b)(11), regarding Commission advice, was added "to alert designated employees to ask the Commission or their agency's counsel when they have a problem." It was deemed necessary to "draw the attention of the designated employees to the availability of advice concerning the application of the code *and particularly the disqualification provisions*." (Emphasis added.) However, it appears from the discussion in the memo that the greater

issue was proper advice regarding disqualification, not an individual's position or disclosure requirements.

The rulemaking memo stated that the regulation does no more than what section 83114 offers. Although the discussion in the rulemaking memo uses the term advice and subdivision (b)(11) of the regulation uses the term assistance, it appears from the memo that these terms were used interchangeably without reference to the specific terminology in regulation 18329. (*Commission Memorandum, January 24, 1980, Proposed Oversight Regulation—2 Cal. Adm. Code Section 18730.*)

Case law also supports a determination that section 83114 provides the authority to issue formal written advice regarding an individual's duties in a conflict of interest code. The contemporaneous administrative construction of a statute by an administrative agency charged with its enforcement and interpretation is entitled to great weight unless it is clearly erroneous or unauthorized (*Rivera v. City of Fresno* (1971) 6 Cal.3d 132, 140).

An agency's expertise with regard to a statute or regulation that it is charged with enforcing entitles its interpretation of that provision to be given great weight unless the interpretation is clearly erroneous or unauthorized (*Lusardi Construction Co.* v. *California Occupational Safety & Health Appeals Bd.* (1991) 1 Cal.App.4th 639, 645). Nevertheless, courts are the ultimate arbiters of the construction of a statute; therefore, an erroneous administrative construction does not govern the court's interpretation of the statute (*Hewlett v. Squaw Valley Ski Corp.* (1997) 54 Cal.App.4th 499, 526).

With this discussion of statutory construction before you, we now turn to the specific language and decision points of the proposed regulation.

V. PROVISIONS OF PROPOSED REGULATION 18329.5

The proposed regulation differs from the December 13, 2002, version in that it now sets forth the specific requestors and when they can request advice according to whether the Commission is the code reviewing body. The proposed regulation is divided into four subdivisions. The first three subdivisions address specifics of the Commission advice process. The last subdivision addresses what information the requestor may need to provide when requesting advice or assistance.

Subdivisions (a)(1) and (2):

This decision point specifically deals with what kind of advice the Commission may provide in the context of the conflict of interest code provisions of the Act. It is divided into two categories, the rules applicable where the Commission is the code reviewing body and those that apply where the Commission is advising other persons under a different code reviewing body. While each has similar provisions, the policy question under the two subdivisions is significantly different.

Subdivision (a)(1):

Decision Point 1: Rules applicable where the Commission is the code reviewing body⁶ (Page 1, lines 11-12 of proposed regulation 18329.5.)

Option A: Under Option A, the Commission may provide either formal written advice ("advice") or informal assistance ("assistance") regarding sections 87300 through 87306 to those persons who have the Commission as the code reviewing body. As discussed above, the role and authority of the code reviewing body is very clear in the Act. Thus, the decisions reached in this section most closely conform to the Act's conflict-of-interest code provisions.

The Commission may choose to provide formal advice or informal assistance to the persons under the Commission's code reviewing authority. These terms are used because this is the terminology that is used in regulation 18329 (b) and (c), with specific requirements for either advice or assistance. Obviously, the selection of *Option A* gives the Commission staff the most flexibility and discretion to decide whether it is appropriate to provide advice or assistance on a case-by-case basis. This may depend upon whether the requestor is an individual, agency or code reviewing body, the facts of each particular situation and the timing within the conflict of interest code process. In addition, regulation 18329(b)(8)(c) specifically provides that the Commission may decline to provide formal written advice if the material facts provided in the request are "inaccurate, incomplete or in dispute."

Option B: Under *Option B*, the Commission staff may only provide informal assistance ("assistance").

Staff Recommendation: In the case where the Commission is the code reviewing body, there is no reason to limit the authority of the Commission to render advice. Therefore, as the code reviewing body, it is appropriate that the Commission provide advice or assistance depending upon the circumstances, using the guidelines set forth in regulation 18329 pertaining to advice and assistance. Staff recommends **Option A**.

Subdivision (a)(2):

Decision Point 2: Rules applicable where the Commission is not the code reviewing body (Page 1, line 24 to page 2, line 1 of proposed regulation 18329.5.)

This decision point raises a similar question in a different context. As discussed in the memorandum, the provisions of the Act that pertain to conflict of interest codes set out a policy that favors control at the most decentralized level. Further, the statutes grant specific authority to the code reviewing body to make determinations regarding its code.

⁶ Note that the introductory language is set out in options, but it is actually a conforming change necessary to conform the language to the Commission's decisions in (a)(1) and (a)(2).

In cases where the Commission does not act as code reviewing body, the Commission arguably functions outside of the system that is contemplated by the Act.

In this case, the Commission is provided with the same option with differing effects. If the Commission determines that staff is authorized to provide formal advice, this advice will necessarily bind the code reviewing body. For example, in the case of a county considering aspects of a County Arts Council's conflict of interest code, the county's decision (usually made by the board of supervisors) would be preempted and overridden by the Commission staff's advice to the Arts Council members or the agency concerning proper designation of the members of the Arts Council board.

Staff Recommendation: Due to the limitations on the Commission staff's role in dealing with conflict of interest codes where the Commission is not the code reviewing body, staff recommends a different standard. Staff recommends **Option B**, whereby written advice should be limited to informal assistance. In this way, the code reviewing body's authority is left intact by the regulation.

Decision Points 1.1 and 2.2: Should assistance or advice be given directly to an individual and under what circumstances?

These decision points provide that the Commission may provide advice or assistance (depending on the decisions at decision points 1 and 2) to an individual or his/her authorized representative. Similar to the decisions set forth above, these parallel provisions have differing impacts in subdivision (a)(1) as opposed to subdivision (a)(2). Thus, we have tied the decisions numerically to the broader decision of how much the Commission should get involved in advising on conflict of interest codes, both those under the Commission's authority as code reviewing body and those under other agencies that act as code reviewing bodies.

However, in both cases, the provisions have been tempered by limiting language. Before the individual can receive the advice or assistance, he or she must have first contacted his or her agency regarding his or her position or disclosure category in the conflict of interest code and disagree with the agency's determination. This was done, in part, to incorporate concerns raised by members of the public.

Note that when the Commission is not the code reviewing body, there is also limiting language regarding an agency's request in subdivision (a)(2)(B). Before an agency can request advice or assistance, there is a requirement that an agency notify its code reviewing body prior to making an advice request, provided that advice is requested prior to submission of the conflict of interest code to the code reviewing body for amendment or adoption. This was also done to satisfy concerns regarding the role of the code reviewing body.

Staff Recommendation: We believe the limiting language accomplishes the dual objective of providing individuals with a vehicle by which they can obtain assistance regarding their code designation, while not impinging on their agency's determinations or

that of the code reviewing body. Thus, we recommend adoption of the bracketed language under Decision Points 1.1. and 2.2.

Subdivision (b):

This subdivision is consistent with the role of the Technical Assistance Division to provide technical assistance to an individual regarding technical compliance with his or her reporting requirements under the agency's conflict of interest code. Basically, this includes how to fill out the Form 700, Statement of Economic Interests, as to what interests are reported and on what schedule. This subdivision was added at the request of the Technical Assistance Division.

Subdivision (c):

Subdivision (c) addresses Section 87200 filers and specifically, "other public officials who manage public investments." After section 87200 was amended to add this category of officials, the Commission defined which officials were covered by this new provision in regulation 18701(b).

Under subdivision (c) of proposed regulation 18329.5, the Commission may provide advice or assistance to an individual concerning whether he or she is subject to Government Code section 87200 and is an "87200 filer." It is important to make this distinction in the regulation because a statutory "87200 filer" has broader reporting requirements under the statute and his or her filing obligation is triggered by the statute, not by an agency's conflict of interest code.

For example, if the Commission determines, pursuant to regulation 18701(b), that an individual is not a "public official who manages public investments," it is not a determination that an individual must file a disclosure statement under a conflict of interest code. The agency or code reviewing body must make that determination as part of the process for amending or adopting a code and may request advice or assistance from the Commission pursuant to the procedures in subdivision (a).

Subdivision (d):

Since the Commission provides formal written advice and informal assistance on a case-by-case factual basis, subdivision (d) specifies what information a requestor may need to provide. In order for the Commission to provide advice or assistance, and to examine pertinent agency determinations regarding an individual's obligations under the Act, the individual's employment contract, duty statement and the agency's conflict of interest code may be requested.

Comment:

The comment summarizes the statutory and regulatory remedies for an individual potentially subject to a conflict of interest code. Initially, an individual may petition his or

her agency to amend its code. An individual may appeal a denied petition to the code reviewing body and may also seek judicial review of an action taken by the code reviewing body. (Sections 87307 and 87308.) The code reviewing body has the authority to modify or suspend an individual's disclosure obligations pending resolution of an appeal. (Regulation 18737.)

The comment was added to minimize confusion about the viability of these sections. This proposed regulation is not intended as a substitute for those remedies. It is an additional vehicle to assist public officials who have questions about their filing obligations.

VI. PUBLIC COMMENT

As a follow up to the Interested Persons' meeting, Mr. John McKibben, the Deputy Executive Officer for the Board of Supervisors, County of Los Angeles, submitted written comments, attached hereto. His comments are in direct reference to the December 13, 2002, version of proposed regulation 18329.5.

In essence, Mr. McKibben states that "in most instances, disputes can be resolved locally without the necessity of involving the Commission staff." He views the code reviewing body as the "final step" in any dispute resolution procedure involving questions of whether an individual is a public official under the Act or whether a designated employee's reporting requirements are correct.

Mr. McKibben also notes if the Commission adopts a regulation that permits an individual or an agency to jointly seek advice *prior* to submitting a conflict of interest code to the code reviewing body, "the regulation should permit the Commission to provide only informal assistance that would not be binding on the code reviewing body."

As of the date of this memorandum, no other written comments on proposed Regulation 18329.5 have been received.

VII. STAFF RECOMMENDATION

Staff recommends that the Commission approve for adoption proposed regulation 18329.5, with the suggested options noted above and any changes that have been made during the course of the Commission meeting.

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